



STATE SENATOR Lawrence Borst

District 36



January 24, 2003

The first two weeks of the 2003 Session of the Indiana General Assembly have been dominated about talk of money or, to be more precise, the lack of money. It was only a few years ago that the state of Indiana enjoyed a surplus of \$2 billion in the General Fund. About one-half of the surplus was given back to the taxpayers in the form of tax reductions or tax credits, mostly to individual taxpayers. The other half was spent on new programs or education.

The economy then faltered, while spending patterns of the administration and the legislature remained the same without cutbacks, and the state now has a basic deficit of about \$800 million. The economy was cruel. The total income to the state from the various general taxes was less in 2002 than it was in 2001, and our income was less in 2001 than it had been the year before. Receiving less money in one year than the year before had never happened to the state. Indiana had negative receipts two years in a row. The experts that project such things estimate that if the economy had remained steady four years ago, and had not declined, Indiana would now have had an additional \$3.5 billion in income.

I did not support the passage of the two-year budget in 2001. I knew that the budget, as presented, appropriated about \$1 billion more for state services than the income we could expect. Governor O'Bannon let this huge deficit budget become law. The tax monies have not come into the state treasury and this is why the Governor has had to cut salaries and personnel.

The Governor's Budget Proposal

The administration's budgetary proposals for the coming biennium were presented by Marilyn Schultz, the Director of the Budget Agency. The presentation to the public was in Indianapolis while the governor was in Evansville having a press conference to announce the selected route of the I-69 extension. The budget proposal was rather strange to say the least. Governor O'Bannon's party has already denounced many of its provisions. Representative Bill Crawford, the Chairman of the House Ways and Means Committee, has stated that he will introduce a completely different budget format in the House.

Gov. O'Bannon and Lt. Gov. Kernan had earlier held a press conference to outline a long range economic development program for the state. Both of the plans, budget and economic development, depended on each other. One would not work without the other. The key to funding the two programs was the securitization of monies from the tobacco settlement. In one case, the governor reduced the appropriations to public schools by \$200 million and then

appropriated \$200 million for specialized instruction in public schools using money from the tobacco settlement fund.

Tobacco Settlement Fund Securitization

Securitization means that the state sells all or a portion of the projected future tobacco settlement payments to investors in exchange for a lump sum payment. Normally the state would receive about 40 cents back for every dollar of future revenue from the tobacco settlement allocated to Indiana. About \$700 million would be given to the state at one time in exchange for about \$1.7 billion of future tobacco settlement income. Securitization is simply a financing tool and has been used by other states around the country.

The governor's budget proposes spending \$22.9 billion over the next two years. He did not recommend new general taxation, but did suggest that several fees be increased. He asked that a portion of the Pension Stabilization Fund be used for the General Fund. There will be \$35 million less for roads, \$60 million less for the police and fireman pension fund, \$33 million less for county revenue sharing, \$50 million from the bank deposit fund and draining of other funds to enhance the general fund. Gov. O'Bannon called for funding public schools at the same level as we have done this past two years minus the \$200 million he hopes to get from tobacco securitization. Higher education would not receive additional monies in the proposed budget.

The shuffling around of the monies will create financial difficulties for local government. Local governments then would have to increase the property tax rate in order to fund their budgets. The increase in property taxes would be substantial. The governor also wants to allow for local government to impose a special property tax to pay for the incarceration of juvenile offenders. This would mean a \$38 million increase of property taxes for Marion County alone.

The state corrections system would be the only department to receive an increase of funding in the O'Bannon budget proposal. This will be a spending increase of \$38 million for the next two years and \$1.2 billion for the biennium. There will be an additional 1,576 new inmate beds at Miami County and New Castle. Officials expect that the state prison inmate population will grow by about 2,250 during the two year period.

Governor O'Bannon and Ms. Schultz opted to take the easy way out and not try to be innovative in solving Indiana's budgetary problems. I do not have the solution today. Fortunately, the budget does not have to be written in the middle of January, and this legislature will still be in session three months from now.

The economy does seem to be improving in Indiana. In December \$88 million more was received than expected. If this trend would continue for the next three months, we

might have more money available to balance the proposed budget. I also believe that some of the excess spending that has gone on the past two years can be cut back. "Trying to live within one's income" should be an excellent slogan for the administration and the legislature.

The economic development program, which the governor calls Energize Indiana, will not pass in its present form. Job creation would be in the future, but Indiana needs those jobs now.

In Other News

- Gov. O'Bannon did announce his selected route for the extension of I-69 from the north side of Indianapolis south to Evansville. He chose the route that follows State Road 37 and skirts Bloomington to the west, goes west of Crane and then down State Road 57 to Evansville. Going north from Bloomington to Indianapolis, I-69 will follow the State Road 37 corridor to the south suburbs of Indianapolis. However, just when SR 37 turns northeast, the new highway will cut through new terrain north near Epler Avenue and will meet up with I-465 at a new interchange, west of the SR 37 interchange. The new road will cost \$1.7 billion, take 15 years to build, and will save the commuter to Evansville 19 minutes of driving time.
- The expansion of gaming will once again be headline material. I think that there are more lobbyists than ever working to legalize "pull tabs", slot machines and casino gaming at West Baden and French Lick.
- The Supreme Court of the United States ruled that the federal government did not have the authority to regulate isolated wetlands. Senator Bev Gard (R-Greenfield) has introduced legislation that will allow Indiana to protect the wetlands from development.
- On November 19, Dr. Don Scroggins, a longtime Greenwood resident who served as Johnson County Republican Chairman, was honored by a resolution in both the Senate and House of Representatives. Dr. Scroggins died in May while vacationing with his family in New Jersey. His widow, Doris, attended the ceremony. Don had many claims to fame during his lifetime. One that he might be most proud of was that the Johnson County GOP never lost a race while he was chairman.
- Representative Dale Grubb, Covington, has introduced a bill that would create a \$5 bounty on coyotes in parts of Indiana where they threaten domestic animals or wild game. Rep. Grubb would have the ears delivered to

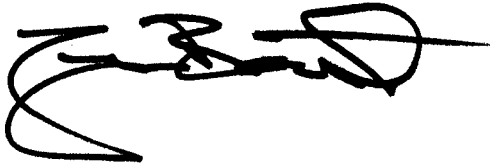
a conservation officer and the claim would be paid by the local township trustee.

- The special session of the Indiana General Assembly in 2002 was an outstanding success. Cutting-edge legislation that will serve Indiana well for the next 20 years was enacted. No such legislation will occur in 2003. The legislators have only one job to do and that is to craft a budget that will fund the state for the next two years. We are waiting for the economy to expand and enhance the tax revenues for the state. The state cannot move forward in education or in other areas until the necessary funds are available. The legislature has the options of raising taxes or cutting services. Raising taxes is the easiest in the short run, but may not be necessary. Trimming certain portions of the budget, including Medicaid and education, takes more legislative courage, but may be considered. The staff of Senate Finance is investigating the possibility of the present administration having over-estimated payments for property tax relief, and if so, this could have a decided impact on the general fund surplus.

The leadership for Indiana has been lacking these past few years. Indiana state government is limping along. Many in both political parties are looking ahead to the gubernatorial elections in 2004. Two years from now the outlook will be completely different. The job at hand is to provide for adequate maintenance of Indiana government.

Contacting the Legislature

To voice your opinion on legislation being considered this session, please call (317)232-9400 or toll-free at 1-800-382-9467. If you need any information concerning this legislative session, if you have a student who would want to be a page, if we can research a bill for you or if you need a question answered, please call my office in the Statehouse (317-232-9517) and my assistant Judith Essex or our intern Brad Anderson can be of assistance.



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